



City Auctions Audit Report

Issued by the
Internal Audit Office
May 15, 2009

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Capital Assets Management City Auctions operations. Based on the results of the audit, six (6) findings were identified to indicate internal control weaknesses within the operation of City Auctions. All six of these findings are considered significant in nature.

Listed below is a summary of the six (6) findings identified in this report.

1. On an overall basis, auction services are being provided by auctioneer in accordance with contract no. 2007-078. There were four procedural exceptions identified in which contract terms and requirements are no longer in practice and do not correspond to actual practice.
2. There is a lack of internal controls over the transfer of property from City Departments to the Property Control warehouse. In addition, once items are transferred, proper measures are not taken to destroy items and prevent unauthorized removal.
3. Police Property Room items that are transferred to the Property Control Warehouse are being selectively retained by the Property Control Section and are not being immediately sold at the general surplus auctions. The Internal Audit Office identified 107 items as being retained in the Property Control Officer's office.
4. Security guards are not assigned to work at the general surplus auctions. In addition, there is a lack of procedures for handling general surplus auctions.
5. Current City Auction procedures, for both general surplus and vehicle auctions, deter sales and limit the City's revenue potential.
6. There is a lack of procedures regarding items that are removed from abandoned and impounded vehicles to sell at the general surplus auctions.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

City Auctions are conducted by the Property Control Section within the Capital Assets Management Division. The City of El Paso currently conducts a total of fourteen city auctions a year; twelve vehicle auctions conducted on the second Saturday of each month and two general surplus auctions generally conducted in the months of September and March of each year. The City of El Paso, through Property Control, contracts with Larry Otten Auctioneers to conduct the vehicle auction for city-owned vehicles and general city surplus auctions. The City of El Paso, through Police Department's Abandoned Auto Division, contracts with AD Wrecker for the towing, storage, and sale of motor vehicles. AD Wrecker subcontracts Larry Otten Auctioneers to conduct the auction of impounded, abandoned and, confiscated vehicles.

SCOPE & METHODOLOGY

The audit objectives of this audit were to assist senior management in identifying and evaluating significant risk exposures, and evaluating the organizations' governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operations information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

Areas audited include, but were not limited to the following:

- Policies and Procedures
- Assets
- Liabilities
- Revenues
- Expenditures
- Payroll

The audit period covered the operations of Fiscal Year 2008 – 2009. This audit only focused on the functions of the Property Control Section within Capital Assets Management Division to include the contract with Larry Otten Auctioneers to conduct the auction of city-owned vehicles and general surplus inventory.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

Finding 1

Contract Compliance – Procedural Issues

On an overall basis, auction services are being provided by auctioneer in accordance with contract no. 2007-078. There were four procedural exceptions identified in which contract terms and requirements are no longer in practice and do not correspond to actual practice. The following non-compliance procedural issues were identified:

Contract Section	Non-Compliance Procedural Issue
Section B. III. states “The information will be provided to the City both on paper and diskettes.”	The Property Control Section has chosen not to obtain the auctioneer reports in an electronic format but may do so if needed.
Section B. IV. states “The auctioneer will be responsible for setting up the auction site prior to the auction. Duties will include display, marking, and tagging property.”	The auctioneer had previously performed this task, but is now being conducted by city staff. Currently auctioneer staff only assists during the day of the auction.
Section B. V. states “The day of the auction the auctioneer will be responsible for overseeing security.”	For vehicle auctions AD Wrecker employs an armed Police Officer to oversee security and for the general surplus auctions the Property Control Section utilizes individuals from other City Departments to help oversee security.
Section C. 8. states “invoices will be itemized, including serial number of unit...invoices will reflect the contract numbers...”	Invoices submitted by auctioneer do not include the serial number of unit and the contract number.

Recommendation

Consideration should be made to modify the contract to correspond to actual practice.

Management’s Response

Will amend contract to correspond to actual practice.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager

Implementation Date

9/30/09

Finding 2

Capital Assets Management – Property Control Warehouse

- There is a lack of internal controls over the transfer of property from City Departments to the Property Control warehouse. A review of items awaiting to be auctioned identified that:
 - Transfer forms are not reviewed for accuracy and completeness,
 - Items are not adequately inspected when received,
 - Items are not accurately tagged,
 - Items are “grouped,” making it difficult to trace individual items,
 - Not all items could be traced to a transfer form,
 - Not all items listed on transfer forms could be traced to the warehouse,
 - Property from Enterprise funds are not properly categorized and lotted.
- Proper measures are not being taken to prevent unauthorized:
 - Removal or theft,
 - Disclosure of data.
- There is a lack of proper policies or procedures for property destruction.

Recommendation

The Capital Assets Management Division, in conjunction with the Property Control Section, should develop and distribute the appropriate policies and procedures. These policies and procedures should be disseminated to all corresponding personnel as part of their on-going training.

Management’s Response

Will develop and distribute policies and procedures to ensure internal controls over:

1. The transfer and destruction of property,
2. Proper categorization of Enterprise fund property,
3. Safeguarding of property.

Will also explore the feasibility of installation of security cameras.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

9/1/2009

Finding 3

Police Property Room Transfers

Police Property Room items that are transferred to the Property Control Warehouse are being selectively retained by the Property Control Section and are not being immediately sold at the general surplus auctions. One hundred and seven (107) items were identified as being retained in the Property Control Section.

- Fifty-three (53) out of the 107 (50%) items were received prior to the 9/20/2008 general surplus auction and not auctioned off. We identified twenty-five items received as early as 9/07/2006.
- Date of transfer could not be determined for 54 out of 107 (50%) items.
- Five (5) out of 107 (5%) items were not lotted and sold. One of the items, a camcorder, was destroyed with no proof of disposal.

Recommendation

The Capital Assets Management Division, in conjunction with the Property Control Section, should develop and distribute the appropriate policies and procedures. These policies and procedures should be disseminated to all corresponding personnel as part of their on-going training.

Management's Response

As part of the overall revision, new policies and procedures will be developed specifically to address items transferred from the Police Property Room.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

9/1/2009

Finding 4

General Surplus Auctions

- Security guards are not assigned to work at the general surplus auctions.
- There are no procedures in place for:
 - The handling of auctions,
 - Items that are sold and paid for, but not picked up.

Recommendation

The Capital Assets Management Division should reconsider the procedures in place for general surplus auctions to identify ways to maximize the City's revenue potential while limiting its risk exposure to an acceptable level.

Management's Response

Due to budget constraints, the hiring of security guards may not be an option, will explore if feasible. Will amend current policy and procedures to address auctions to include items that are paid for and not picked up.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

9/1/2009

Finding 5

Processes and Procedures for City Auctions

Current City Auction procedures, for both general surplus and vehicle auctions, deter sales and limit the City's revenue potential.

- Minimum prices are not established for high valued general surplus items or vehicles.
- Checks are not allowed as a form of payment.
- Bidders are required to pay for bids the same day of the auction.
- Split payments (using different payment methods) have been disallowed.
- Time worked at the auctions by City employees is done on an overtime basis.

Recommendation

The Capital Assets Management Division should reconsider the procedures in place for both general surplus and vehicle auctions to identify ways to maximize the City's revenue potential while limiting its risk exposure to an acceptable level.

Management's Response

- Will verify with the City Attorney's Office if setting a minimum price is allowable for high value general surplus items or vehicles.
- Due to the risk involved in accepting checks, will verify with the Auctioneer if they are set up to accept a check as an electronic transfer. This will ensure the funds are available and the City does not assume the risk of a bad check.
- In order to complete the transaction, bidders are required to pay the same day of the auction. We will coordinate with the Internal Audit Office to identify other options.
- Split payments will continue to be disallowed due to the Auctioneer not being able to accurately account for split payments.
- Due to size of staff (3 full time employees), the auctions are done on an overtime basis on Saturday's. Will look into allowing staff to work one ½ day during the week to minimize overtime.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager

Implementation Date

9/1/2009

Finding 6

Abandoned and Impounded Vehicle Contents Sold at Auction

When removing items from abandoned and impounded vehicles to sell at the general surplus auction:

- There is no general listing of what items should be removed; the Property Control Officer makes the decision as to what gets removed, destroyed, or left.
- Adequate records are not maintained of property removed and sold in order to determine which vehicle the items were removed from.
- There is no documentation of sensitive items that are removed and destroyed, such as identification cards and credit cards.
- Contents removed from vehicles are not verified if stolen prior to being sold.

Recommendation

Capital Assets Management Division, in conjunction with the Property Control Section, should develop and distribute the appropriate policies and procedures regarding items that are removed from abandoned and impounded vehicles.

Management's Response

Capital Assets will coordinate with the Police Department to develop procedures for the transfer of items removed from abandoned and impounded vehicles. Sensitive items will be turned over by Property Control Staff to the Police Department for destruction.

Responsible Party

Liza Ramirez-Tobias, Capital Assets Manager and Carlos Flores, Property Control Officer

Implementation Date

10/30/2009

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this internal audit, Capital Assets Management needs to improve its oversight over City Auction operations. By implementing adequate internal controls and by establishing a proper Policies and Procedures Manual that is properly communicated to staff, management can improve its oversight of the Property Control Section.

The procedures currently being utilized by the Property Control Section are poorly documented and are not consistent with a control conscious environment. The Capital Assets Management Division, in conjunction with the Property Control Section should develop and distribute the appropriate policies and procedures regarding:

- The transfer of property,
- Removal of property from abandoned and impounded vehicles,
- Safeguarding of property,
- Destruction of property,
- Auction operations,
- Sale of property,
- Security measures.

During the course of the audit, the Property Control Officer controlled the flow of information between the Property Control staff and Internal Audit Office. The Property Control Officer was not forthright about the Police Property Room items and became uncooperative as the audit progressed.

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